

# ROUNDTABLE DISCUSSION ON PRESIDENT'S ECONOMIC STIMULUS PROPOSAL

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## COMMITTEE ON SMALL BUSINESS HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

WASHINGTON, DC, FEBRUARY 4, 2003

**Serial No. 108-1**

Printed for the use of the Committee on Small Business



Available via the World Wide Web: <http://www.access.gpo.gov/congress/house>

U.S. GOVERNMENT PRINTING OFFICE

89-918 PDF

WASHINGTON : 2003

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## ROUNDTABLE DISCUSSION ON PRESIDENT'S ECONOMIC STIMULUS PROPOSAL

TUESDAY, FEBRUARY 4, 2003

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON SMALL BUSINESS,  
*Washington, D.C.*

The Committee met, pursuant to call, at 10:15 a.m., in Room 2168, Rayburn House Office Building, Hon. Donald A. Manzullo [chair of the committee] presiding.

Chairman MANZULLO. Good morning. Forgive me for being late. It is good to have you here. Welcome to this inaugural event for the Small Business Committee for the 108th Congress. What a thrill it is to have Hector Barreto here. First meeting of the year, and the Committee isn't even organized yet.

I would like to welcome the Members who joined us today. Representative Bradley is here, and we may be joined later on by Representative Musgrave and Representative Beauprez. And Mr. Bartlett might also join us, but I am sure he is experiencing the same problem coming with the streets.

I appreciate you coming together to discuss the President's jobs and growth initiative and its benefit for small businesses. We should remember that in 2 or 3 hours there is going to be a memorial service for the 7 astronauts that perished on Saturday. Obviously our prayers and thoughts are with them and their families and the entire Nation.

The President's jobs and growth initiative is very important to our economic vitality. The initiative includes provisions to enable short-term growth as well as to ensure sustained long-term growth. Both are vital. Both are important to the stability and growth of our small business community.

Accordingly, today's roundtable will explore the benefits for small businesses contained in the President's initiative. Also we will listen to your ideas on other tax initiatives important to small businesses.

Before we commence, I just want to explain some administrative procedures for the roundtable discussion. If you wish to speak, if you would just turn your nameplate up on one end, I will call you. Please introduce yourself and your organization. Please keep the time in mind as you speak, as we would like to have everybody's thoughts.

For those present today, this roundtable is formally recorded. We will keep the record open for 7 days for any written submissions that participants may wish to supplement their remarks. Keep

those written submissions to two typed pages, single-spaced, elite type.

Chairman MANZULLO. With that, I would like to introduce Hector Barreto, the Administrator of the U.S. Small Business Administration, to present the President's plan. Actually, the plan is now just a few weeks old, and the budget came in yesterday. It looks in pretty good shape here. A couple areas we will have to work around, but it looks pretty good.

And Hector has done a tremendous job for this administration, a tough job. I had the privilege of having him in our congressional district. I think it was one of the first times that he visited any congressional district and held an informal meeting at my brother's restaurant, and Lloyd Falconer was there. And I think within about 2 hours' notice, there were about 30 small business people that came, and we are absolutely thrilled that the Small Business Administrator would take the time to come out and visit with the business people there.

I am just going to turn it over to Hector to comment on the administration's plan, and, again, this is very informal. Hector, let me turn it over to you. Thank you for being here. What a joy it is.

#### **STATEMENT OF HECTOR V. BARRETO**

Mr. BARRETO. Thank you, Mr. Chairman. Good morning. Good morning again, Chairman Manzullo. Thank you so much for inviting me to be here and to be able to participate in this roundtable. I also want to acknowledge the distinguished Member from Congress. Thank you so much for being here as well.

I am pleased to be here this morning to participate with you in this roundtable discussion on the small business provisions of the President's economic growth package. It is good to be among so many good friends. So many of you have supported our President and our administration, especially during these challenging times.

Small businesses are the backbone of our economy. They employ more than half of the private work force. They generate about 50 percent of the Nation's gross domestic product, and they create two-thirds to three-fourths of all the net new jobs in our economy. Research shows that the vast majority of these new jobs are created in the first 2 years of a small business. Entrepreneurs are truly the key to our economic vitality, and the President's plan offers specific relief and the opportunity for them to grow and to create even more American jobs.

This roundtable is a perfect way to talk about the President's plan and narrow in on making sure that government policy helps small business. This format is one that the President personally believes in.

I have been with the President quite a few times over the last year doing roundtables, discussing with small businesses their issues. The President always elicits feedback and support from the small-employer community.

I have been with him in Waco, Texas, during his economic summit. We had a small business roundtable late last year in Louisville, Kentucky. I was with him in St. Louis, Missouri, about several weeks ago. I know that Mr. Falconer was there as well. We did a small business roundtable the first week of January in Alex-

andria, Virginia. And the President's purpose has always been clear: to hear from the employer community about what will work best for our country.

The President has called on Congress to act swiftly to pass his economic growth package, and your voice will be critical to this effort, and we thank you for your commitment and active participation in these deliberations.

Through a combination of income tax rate reduction, an increase in allowable deductions for expenses, and the permanent repeal of the estate tax, America's small business owners and their families will get to keep more of what they earn. The President has pointed out that under his plan, and I quote, a family of four with an income of \$40,000 will receive a 96 percent reduction in Federal income taxes, end quote. That is nearly a complete elimination of the family's Federal income tax burden, and it translates to more disposable income to be invested, to be saved and to be spent.

For small business owners, many of whom are subject to personal income tax rates on their business, the reduction in rates will mean an increase in capital to expand their business, to hire new workers and to provide new or improved products.

As proposed, the reductions in top marginal rates scheduled to take effect in 2006 down to 35 percent would take place retroactively in 2003, resulting in tax cuts averaging \$2,042 for some 23 million small business owners. These hard-working entrepreneurs would receive 79 percent, or about \$10.4 billion, of the \$13.3 billion in tax relief from accelerating the reduction in the top tax bracket.

Since small business owners are so closely tied to the personal tax rates, lowering individual marginal rates will have a positive effect on the ability of many entrepreneurs to expand.

As a Princeton University economist, Harvey Rosen, stated in a May 2001 report to the SBA, and I quote, taxes matter. As tax rates go up, entrepreneurial enterprises grow at a slower rate. They buy less capital, and they are less likely to hire workers, end quote.

Additionally, a proposed 200 percent increase in year 1 expense deduction for new investment—this is the section 179 expensing—would encourage small business owners to purchase the technology, the machinery and other capital equipment that they need to expand.

The amount of investment that may be immediately deducted beginning in 2003 by small businesses would increase from \$25,000, where it is today, up to \$75,000. This new amount is permanent and indexed to inflation.

Expanding the eligible write-offs for small business investment has strong support in the small business community. All White House conferences on small business have recommended increases in direct expensing. Moreover, SBA's Office of Advocacy has long supported proposals to increase such write-offs and testified in support of this change before the Senate Finance Committee in March 2001.

From an economic development perspective, this is more than a simple Tax Code change. There have been several studies that have found links between taxation and investment. A 1998 Bureau of Economic Research paper concluded that the marginal tax rate

changes significantly change investment spending patterns. The study suggested that the tax rate changes would alter the cost of capital for new investment decisions, and that the lower tax rate would make more projects viable, and by making this change permanent and predictable for small businesses, it will yield greater results as capital spending patterns rise from year to year.

According to the SBA's Office of Advocacy, there are 22 million small businesses in the United States. If on the President's plan on average they increase their equipment purchases by only \$10,000, that would be almost \$230 billion which would be pumped back into the economy annually, creating jobs and expanding the tax base.

As the President stated in his recent visit with me to Applied Manufacturing Company in Alexandria, Virginia, and I will quote the President again, he said, this is a plan that says if you are willing to take risks and invest more, there is a benefit for doing so, end quote. It is an incentive for small businesses to increase.

The President has also proposed the permanent repeal of the estate tax so small business owners will no longer be faced with the prospect of leaving their family an insurmountable tax bill along with the family business and the difficult decision of whether or not to sell the business to pay the tax. Instead of forcing their heirs to sell the business to pay the government, the repeal will provide certainty for family-owned small businesses that want to transfer the business to the next generation of entrepreneurs.

And finally, the President's plan to abolish the double tax on dividends will help businesses to grow and create jobs by reducing the cost of capital. Most dividends received by shareholders will be tax-free. Small businesses that retain corporate earnings will not face capital gains tax on the increase in the value of the firm from retained earnings that could have been distributed as dividends. This will benefit the owners of 2 million C corporations, including many small corporations.

Our President and administration are strongly committed to helping small business by removing or reducing the barriers that stand in their way for faster economic growth. Besides the significant changes outlined in the plan, let me take this opportunity to mention just a couple of other items the President talks about in his agenda for small business.

He talks about streamlining small business regulation and the need for tort reform to prevent and curtail frivolous lawsuits. We know that small businesses are hardest hit by regulation. They face an annual regulatory burden of \$6,975 per worker, 60 percent more than a firm employing 500 or more people, and tax compliance costs are twice as burdensome on small businesses compared with their larger counterparts.

The Federal Government has a new Web site, [www.regulations.gov](http://www.regulations.gov), that makes it easier to participate in Federal rulemaking. Small businesses can review and submit comments on proposed regulations that are published in the Federal Register.

Americans spend nearly a trillion dollars a year complying with State and Federal regulations, so having this Web site provides an opportunity to hear from those that are unfairly burdened.



Tomorrow I will be testifying before the Senate Committee on Small Business and Entrepreneurship on another administration priority, the need for Congress to pass association health plan legislation to help small business have access to affordable health care for their employees, another issue that the community has been very proactive in pursuing.

Taken together, these changes send a strong signal that this administration understands that our economy can thrive only if our small businesses thrive. As the economy continues to trend upward, America's small businesses can be counted on to continue to provide the strength, resilience and optimism. Thanks to the President's aggressive agenda, small business owners can count on an environment in which their efforts will be encouraged and their success will be sustained.

Chairman Manzullo, thank you again for including me in today's discussion, and I look forward to working with you and the entire Committee in the months ahead as we actively pursue the passage of the President's economic growth plan. Thank you very much.

Chairman MANZULLO. Thank you very much.

Chairman MANZULLO. I am going to have that statement put in the Congressional Record and distributed to every small business person in my congressional district, and I want to encourage all the groups here to take that statement and publish it in your next monthly magazine or newsletter, because I don't know a statement that more succinctly sets forth the challenges and the proposals to increase the viability for small businesses than that which you just prepared. So you did a great job on it.

Let us go around and introduce the folks here and then get engaged with conversation.

Harry Alford is the president and CEO of the National Black Chamber of Commerce. Harry stopped by and saw me several months ago, and we sent out about 8,000 letters to every legislator in the country, and we found out there was an egregious bill pending that would have essentially socialized all local and State zoning requirements with a one-size-fits-all program that would have mandated the size and color of signs and would have made every municipality that got, quote, a planning grant, end of quote, from HUD to be subject to that 1,000-page manual.

HUD has apologized for giving \$2 million to a planning association to come up with that model code. Hopefully the thing is scrapped, and Harry recognized the fact that a lot of small businesses will be wiped out. That is all we need is one more Federal agency determining the fate of the small businesses.

We are also joined by Dena Battle, manager, legislative affairs, National Federation of Independent Businesses, 600,000 strong. Is that correct?

Ms. BATTLE. Absolutely.

Chairman MANZULLO. And growing by hundreds each day in the 16th Congressional District, where Lloyd Falconer, who is my constituent, is sitting next to you. He is a member of the board of trustees. Is that correct?

Mr. FALCONER. Board of directors.

Chairman MANZULLO. Board of directors for the National Federation of Independent Businesses, secretary and treasurer of Swards

Group Products in Seward, Illinois. He has got quite a testimony. He will talk about that.

Bob Benham is chair of the policy committee of the Independent Stores Board, the National Retail Federation, owner of Balliet's of Oklahoma City. What kind of store is that?

Mr. BENHAM. It is a very nice women's store with 34 wonderful employees; been there for almost 7 years.

Chairman MANZULLO. Great.

Matt Coffey, president and CEO of the National Tooling and Machining Association, an industry under tremendous stress. Ask Mr. Falconer about that, plus the 1,100 owners of small factories in Rockford, Illinois, which only has about 160,000 people. We look forward to your comments.

Dorothy Coleman, vice president, tax policy, National Association of Manufacturing. We put the manufacturers next to each other down there.

Lee Culpepper, senior VP, Government Affairs and Public Policy, National Restaurant Association. Good to see you, Lee.

Mr. CULPEPPER. Good to see you, Chairman.

Chairman MANZULLO. Kristie—is it Darien?

Ms. DARIEN. Yes.

Chairman MANZULLO. Director of government affairs, National Association for the Self-Employed.

And Karen Kerrigan, chairman, Small Business Survival Committee. Good to see you again, Karen.

Todd—he isn't here.

Mr. MACK. I will be standing in for him today in the meantime.

Chairman MANZULLO. What is your name?

Mr. MACK. My name is David Mack.

Chairman MANZULLO. Good to see you, David.

Paul Merski, chief economist, director of Federal tax policy, Independent Community Bankers of America. Good to see you, Paul.

Dr. Martin Regalia, VP for economic and tax policy, chief economist, U.S. Chamber of Commerce.

John Satagaj, president and general counsel, Small Business Legislative Council.

Jacqueline Vlaming, VP, corporate counsel, Coverall North America, Inc., from Fort Lauderdale, with the Women Impacting Public Policy. Is that Terry's group?

Ms. VLAMING. Yes, it is.

Chairman MANZULLO. Okay.

Patricia Wolff, senior director, congressional relations, American Farm Bureau Federation. Good to see you here, Patricia.

And Michael Wolyn, executive director, Bureau of Wholesale Sales Representatives.

Wow. We have got quite a cross-section across America.

What I would like to do is just raise your—if you could keep your remarks to, say, under 2 minutes, if that is possible, so we can move it along.

Go ahead, Paul.

#### STATEMENT OF PAUL MERSKI

Mr. MERSKI. Thank you, Mr. Chairman. On behalf of the 5,000 members of the Independent Community Bankers of America, we

appreciate you having this roundtable and sincerely appreciate all your hard work over the years on behalf of small businesses.

Small businesses are the key customers for community banks. That is our bread and butter, to do lending to the small business community, and as far as the President's economic growth and jobs plan, we wholeheartedly endorse these proposals. It is good for small business. The rate reductions in particular will dramatically help a number of our community banks that are subchapter S and pay individual income taxes.

And one key point I would like to make is that small businesses typically do not go to the equity markets or stock markets for their capital to grow their business, to start their business. They rely on bank lending, and it is a key source of revenues that the small businesses need to run their businesses on a daily basis. And it is the community banks that keep a lot of small communities and towns viable to that lending, and a lot of the President's proposals are good for community banks and good for small businesses.

And one thing I would like to mention is the proposals for expanding savings incentives that just came out in the President's budget yesterday, dramatic changes in the way people are allowed to save, and as we all know, that core savings that is deposited in the banks and in the equity markets is what is available to small businesses to invest.

So overall we are very pleased with the President's budget. We look forward to working with this Committee and working with Congress to enact many of those solid pro-small-business incentives. Thank you.

Chairman MANZULLO. Jacqueline.

#### **STATEMENT OF JACQUELINE VLAMING**

Ms. VLAMING. Good morning. I am here on behalf of the National Association of Business Owners and Women Impacting Public Policy of which NABO is a member. So I will speak on behalf of the 400,000 women business owners and professionals.

While we are very pleased with the proposals in the economic stimulus package, particularly those dealing with the increase in the expensing from 25,000 to 75,000 and the decrease in the income tax rates which will affect about 23 million small business owners, given on average an additional \$2,000 per year, we don't know that—while we support those provisions, that they will really give us the opportunities that we need in the current economic climate. We think that our opportunity lies in Federal contracting, and in that regard, Chairman Manzullo, I would like to compliment you on the efforts that you have made before the Department of Defense to see that small business gets more of their share of Federal contracts.

About \$200 billion a year is spent by our government on services; \$212 billion of that is from the Department of Defense. For every increase in the contracts, fewer Federal contracts are awarded to small business. So we strongly support the unbundling of Federal contracts to give better opportunities to small businesses. We will take that money that we save in the President's economic stimulus package, and we will invest in our businesses, but we want a piece of the Federal contracting budget.

Also there is a public act that was enacted—Public Law 106.554, that was enacted in the year 2000 establishing contracting assistance for women business owners. It called for a 5 percent set-aside for women business owners. The Small Business Administration conducted a study to determine whether or not women were underrepresented in Federal contracting. That study was done. It has not been released. That study, my understanding, did determine that women are underrepresented, and we would urge that Public Law 106.554 be implemented and that the SBA release that study. Thank you.

Chairman MANZULLO. Let me state that we continue to fight with the—and I would like to mention the names of companies, because the only way you can do it is to hold people publicly accountable. We are in a fight with Northrup Grumman. Northrop Grumman is a subcontractor for Lockheed Martin, which is building the Joint Strike Force fighter. There are seven European countries involved in that consortium. Spain is now. Northrop Grumman, as part of the American component, has given four or five expensive and lucrative contracts to the Europeans. That supposedly represents the U.S. participation in it, and I asked the Northrop Grumman people to come to Washington, and they told me to my face that Ingersoll in Rockford, Illinois, does not have the expertise to make the machines necessary to build a Joint Strike Force fighter, one of the most insulting things ever to happen.

They gave the contract to the Spaniards, who are not part of the consortium, and they say, well, it costs less, and the Spanish can do it much better than the United States. This is the United States contract, the United States taxpayers' dollars to build our portion of the Joint Strike Force fighter. So I am going to join the Joint Strike Force fight with Northrop Grumman. That is disgusting that they would even look at somebody besides American contractors. This is U.S. policy, and they are going offshore to do that.

We are also in a fight with the post office. We like to take on these small people. They entered into a giant bundling contract with Boise Cascade—it has been a disaster—for pens and pencils and everything, and as the post office talks about raising the staff for everything, they are responsible for the destruction of many small Ma and Pa stationery stores across the Nation. The name of that company is Boise Cascade. It is a bundler who has been helped by, I guess, the bundlee or bundlor, which is the United States Post Office.

So I would like to mention these people by name, because it is the only way that you can bring attention to the fact that this is our own U.S. Government policy, but it is destroying jobs.

Bob, you are up next.

#### **STATEMENT OF ROBERT BENHAM**

Mr. BENHAM. Thank you, Mr. Chairman. Thank you for the opportunity to be here this morning. I am representing the National Retail Federation, but I really feel like I am representing my 34 employees and the hundreds of thousands of small retailers across this wonderful land of ours.

We support the President's stimulus package. Retailers have strongly denied this. And I think the focus should be on putting

dollars back into consumers' pockets as quickly as possible. I think we are all aware that the consumer supports two-thirds of the economy. About 65 percent of economic activity is the American consumer, who has been absolutely magnificent over the years, but they are beginning to falter. I think you have seen consumer confidence levels begin to slip, particularly in December. It was a very difficult December for retailers.

And I would like to focus on two specific aspects of the President's stimulus package. The first is the need for across-the-board tax cuts, all of the marginal rates. I think that is really critical, because the economy is interrelated.

For example, in my business in Oklahoma, city, we are a mainstream retailer. We sell nice things to affluent people, but I have 34 employees to whom we provide health care insurance. We provide an IRA plan. We have dental insurance, disability insurance, life insurance. Many of them are heads of households. Some are single moms. They really rely on the store to provide their income and their benefits, and I am really very, very concerned about the fact that if these cuts are targeted, that the interrelationship between the various differing economic layers will not happen. We really need those cuts to be across the board, because the people who have the incomes who will receive greater tax reduction will drive the economy, as Mr. Barreto says, by spending, investing or saving, and that is exactly what the economy needs. So let us work very hard to keep these cuts across the board in all tax brackets.

The other thing I would like to just comment on very briefly is the estate tax. I mean, right now my estate—I am 63. I have a daughter who is 31 who wants to come into the business. She is a mom right now, but right now my estate plan consists of deciding whether I am going to climb the highest building in Oklahoma City and jump the night before the estate tax comes back into effect, and that is not really how I want to run my business.

There is tremendous uncertainty hanging over all of us independent business owners. We really need to make the estate tax relief permanent. Aside from putting dollars in consumers' pockets right now, estate tax relief—permanent estate tax relief really is the name of the game for us.

There are other issues, but those are the two key ones. Thank you, Mr. Chairman.

Chairman MANZULLO. Thank you.

Chairman MANZULLO. Our next participant—we are joined by Congressman Bob Beauprez.

Bob, do you have opening statements you would like to make?

Mr. BEAUPREZ. I appreciate that, Mr. Chairman. Mostly, I am delighted to be in the company of so much experience and especially the organizations that you represent. I come out of a background of small business, with my father and brother ran a dairy farm for 4 years of my life, and then as we got out of that business, I rather impulsively found myself buying a small community bank, and we ran that like a small business, too, because it was owner-operated. But what we found ourselves doing, of course, was interfacing with the numerous small business owners out there as our client.

And I will confess to continually being astounded at discovering new ways that people find to get through the day, the products and

services that they create that need to be done out there. And so this whole discussion that we are having, I find myself, coming to Congress as a freshman, seems to be very appropriate for my background; how do we get this economy going, how do we create jobs, and recognizing that the role, the critical role, the huge role that small business has always played in America and still plays, thank God, and I hope that I can maybe bring some of my practical experience to bear here in Washington, D.C., reflecting on what impact we had back home.

I very much look forward to this discussion, and hopefully, Mr. Chairman, I will have time before I have to leave—just a couple minutes early—to ask a few questions later on. Thank you, Mr. Chairman.

Chairman MANZULLO. Thank you.

Chairman MANZULLO. Mr. Coffey.

#### **STATEMENT OF MATTHEW B. COFFEY**

Mr. COFFEY. Thank you, Mr. Chairman. I want to pick up on some remarks that you were making earlier about the manufacturing, about the particular problem with the Defense Department. I was particularly struck during the dock workers' strike on the west coast that the United States had to shut down the production of Tomahawk missiles because parts that one of their prime contractors had ordered from Japan were sitting in ships off the coast. If that isn't a case of us doing something really stupid, I don't know what is, and I think that clearly where the defense appropriations are concerned this time around and the defense budget, we clearly need to have a very, very clear statement that all subcontracts related to defense spending wind up in the United States. Otherwise, we are placing our country at jeopardy.

On the President's package, I would make a couple points. First, of the 800,000 tax returns filed by businesses in the United States, according to the Treasury Department, 62 percent of them are filed by small businesses. That clearly indicates that the bulk of the benefits here—of these rate cuts is going to come to small business.

To accelerating the tax cuts, I think we learned our lesson. In 1980, we didn't do that, and we wound up with the 1982 recession, and I think it is absolutely mandatory that we move forward in that area.

We are very appreciative of the recommendation to increase the expense allowance, but as you know in manufacturing, the cost of equipment in manufacturing is extremely high. Basic milling machine is these days running somewhere in the neighborhood of 200- to \$300,000, and so while \$75,000 is a great allowance, it is not of sufficient magnitude for most manufacturers, particularly small manufacturers, to be able to make the big investment, the investment they really need to get their productivity up to compete in what is, in fact, a very arduous global economy at the present time.

And I just associate myself with the whole conversation of unbundling contracts and on association health plans. I think that if we can put some things in place like association health plans, while they don't solve the problem of health care in America, they at least give some immediate relief to small businesses—potential

for that relief. I think it is important that we move in that direction. Thank you, sir.

Chairman MANZULLO. Ms. Coleman.

#### STATEMENT OF DOROTHY COLEMAN

Ms. COLEMAN. Thank you. Thank you, Chairman Manzullo, for holding this roundtable on very important issues, especially to small manufacturers.

The NAM strongly endorses the President's economic recovery plan, as well as the additional tax relief provisions that were in his budget that he sent out to Congress last year. We feel that this tax relief will be a very important factor in jump-starting the current economic recovery, as well as ensuring durable economic growth in the future.

I just want to tell you—mention a recent survey that we took of our small manufacturers. NAM has 14,000 members, and of those, about 10,000 are small, medium-sized manufacturers. We did an informal survey earlier in January and asked them what the top three tax incentives are that would most help them expand their business, and the three things that they identified were accelerating the individual tax rates, making permanent the repeal of the death tax and also expanding expenses to \$75,000.

The individual rate cuts are important not only to our manufacturers' employees, but also to the 4- to 5,000 small and medium-sized manufacturers that are S corporations. Getting a reduction in their top tax rate of almost 4 percent is going to mean a lot to them and help them invest and create jobs.

On the expensing, many of our members who are not able to use the current expensing provisions under current law would be able to use the expanded expensing. Lifting the ceiling to \$400,000 certainly is a big improvement and will help many of them.

On the estate tax, this is a huge issue for our small manufacturers, small and medium-sized manufacturers. On average, they pay about \$52,000 a year just on estate tax planning alone. This is money that they would otherwise use to create jobs and expand their businesses.

I would also like to raise another issue that was addressed, happily so, in the President's budget proposal that they sent out yesterday, and that is that this FSC/ETI, or foreign sales corporation/extraterritorial income issue. This is an issue of particular interest to small manufacturers. Very often it is viewed as a big-company issue, but there are a lot of small manufacturers that take advantage of the FSC/ETI benefits.

We did a survey several years ago, and on average our small manufacturers receive the benefits of about \$124,000 from the FSC/ETI regime. As you know, the WTO ruled finally at the beginning of 2002 that the FSC/ETI was an illegal export subsidy, and we now face pending sanctions unless we repeal it and replace it with another tax incentive or tax law change.

One concern that we have are that some of the proposals under discussion to replace FSC/ETI or to substitute the FSC/ETI would not benefit at all the small manufacturers who typically are pure exporters. They don't have multinational operations, but operate solely in the U.S. and export.

So in moving forward, we hope that you will work with us, Chairman Manzullo, to craft an acceptable solution both to WTO, and one that provides fair and equitable treatment to all manufacturers. Thank you.

Chairman MANZULLO. We were planning on having a hearing on FSC/ETI. The small business voice I don't believe has been heard on that very complicated issue.

Ms. COLEMAN. Well, we certainly appreciate that.

Chairman MANZULLO. Thank you.

Chairman MANZULLO. Mr. Alford.

#### STATEMENT OF HARRY ALFORD

Mr. ALFORD. Thank you, Mr. Chairman.

Mr. Chair, Members of Congress, Mr. Administrator, I am very happy to be here. The National Black Chamber of Commerce represents 1 million of those 22 million small businesses. We have a little under 200 chapters in 40 States and 8 countries, and we are extremely thankful, very thankful, that for the first time in my mature life, this country has a President who not only understands small business, but he addresses and acts upon the best interest of small business. I think truly these are exciting times.

In his stimulus package, I think the most notable players are the speedup of the 2001 tax cuts, the elimination of the dividend tax. Perhaps the most valuable player is the increasing of small business expenses from \$25,000 to \$75,000. I think that is going to have a strong, positive impact on small business growth.

And I am very happy to see Congressman Beauprez here. He invited me out to Colorado to speak on many items such as the permanent repeal of the estate tax, and if we get that done, I think that probably would be one of the biggest accomplishments on our platform, on our agenda. The National Black Chamber of Commerce, in going around the country we got the support of Bob Johnson, the founder of BET, who is the head of one of the larger black business—

Chairman MANZULLO. He is from Freeport.

Mr. ALFORD. That is correct, sir. And for him to put a full-page ad in the Washington Post saying, we are supporting the position of the National Black Chamber of Commerce to repeal the estate tax, shook the liberal world. I mean, it shook it. They are still shaking.

So I think we are on the proper road to recovery. I think these are great times. Mr. Administrator mentioned the association health plans. I, too, will be testifying tomorrow in support of that.

Another pet of ours is Social Security reform. African American males have a life span in this country of 64 years. They can retire at age 65. Now, do the math on that. We are cash cows, and I think that if we make the money that is accrued assignable to the heirs, the spouse, then that overrides that sad historic fact.

I understand that the first hour is on the President's tax plan. The second hour is on various other subjects. I will wait for that. Thank you, Mr. Chairman.

Chairman MANZULLO. Thank you.

Chairman MANZULLO. Mr. Falconer.



If during the course of this you have a question to ask Mr. Barreto, he is here to avail himself of that. If he gets stuck, he will ask you for the answer.

#### STATEMENT OF LLOYD FALCONER

Mr. FALCONER. Thank you, Mr. Chairman, for inviting me. Thank you for holding this meeting. It is good again to see Director Barreto once again. Welcome, Members of Congress, Mr. Beauprez and Mr. Bradley.

If you do not remember anything more that I say in this meeting, I have four words to anyone who will listen. Let us export products, not jobs.

In the 16th District where I live, the Rockford area, which I am a part, is very heavily dependent on manufacturing, and for 150 years that has been the core business of that area.

Manufacturing, I think you, Mr. Chairman, in your speech September 30th in Rockford reported how important the manufacturing power became as it rolled down the hill and other people benefited, compared with, let us say, a service sector job or a government job and the effect that that same dollar spent has on the community and on the country. And I referred to that. I still have a copy of that speech in your bullet points, and I referred to it frequently.

Our business is a family-owned business, or a C corp. It was founded by my father in 1954. Currently my brother and I run the day-to-day operations. I have a sister and mother who are stockholders, and some other people, but my brother and I make the operation work. He wanted to be president. I said, fine; I will be secretary/treasurer. I get to sign your check.

We have seen good times, and we have seen bad times. Right now we are among the very lucky few who are seeing some good times, but that is only because of the choice of customers that we have. Twenty years ago we wondered why we were still in business. We had 9 employees, down from about 50. That was our Depression.

However, while we are currently enjoying success, and we are growing and expanding and spending lots of money on new equipment, many of my colleagues are not, for a variety of reasons, and one of the major reasons is that we have been exporting our jobs and not our products, as you have alluded to, in contract bundling and the government spending in Spain what they could be spending in Rockford, Illinois, and things like that.

We have a Federal policy which, quite frankly, encourages large Fortune 500 companies to leave this country, and I think that is sad, because not only when they leave do they take jobs away from their own business, but they take jobs away from the small businesses who were their suppliers. And so consequently, they lose not only the employees, but they actually lose customers.

And if you recall Henry Ford early on in his business, he said, you know, if my employees can't afford to buy my product, what is the point? And we have to be able to compete in the world.

So there is a lot of issues that are at hand here. Simplifying the Tax Code is just one of them, but it is a very important one, and I will not retrace all the steps of former speakers.

I am on board with the President's plan. I just hope we can do more and quicker, and I applaud him for taking this message on the road. I had the privilege of hearing him speak in St. Louis on January 22nd, and Director Barreto was there, and it is wonderful that he is getting out and getting this message across, because without manufacturing jobs that allow money to be spent in every other direction of life, whether it is in this gentleman's store, fine lady's apparel or a gift shop or a stationary store, it is academic. We have to have good manufacturing jobs, and so that is where I am coming from, and I really appreciate the opportunity to speak here, and I thank you.

Chairman MANZULLO. Thank you.

Chairman MANZULLO. Ms. Battle.

#### STATEMENT OF DENA BATTLE

Ms. BATTLE. Thank you, Mr. Chairman, and Members of Congress, Administrator Barreto. I appreciate the opportunity to be here. I appreciate the remarks that Lloyd Falconer made on behalf of small businesses throughout America.

Talking about the President's plan, we are very supportive of this plan, and it means a lot to our 600,000 members nationwide. Specifically—and I will echo one of the comments that someone has made—but accelerating the rate cuts is very important for our members. Eighty-five percent of our members file as individuals. The money that they will receive from these tax cuts, that is money that is going to go directly back into their business. A lot of them are self-employed. A lot of them operate out of their homes. The money that they get, they want to grow their business, and that is going to go right back into their business. So in terms of stimulating the economy, that provision is just going to be very helpful to our members. We think it is going to help a lot of them grow.

I came across a statistic: 90 percent of Inc. Magazine's 500 fastest growing companies started with less than \$20,000, and 1 in 4 started with less than \$5,000. It just goes to show big companies start out small. They are the growth engine of our economy, and this is a growth provision for them.

The expensing provision also was very important. NFIB did a study. They surveyed our members. Sixty-two percent of our members said that they had capital outlays in the last 6 months; 62 percent of what they spent their money on included equipment and furniture for their offices, whether it was computer equipment—so the expensing provision is going to allow them to expand on what they are already buying right now, and we think it is going to be a great benefit to our members.

We are very excited about the fact that the bill that has been introduced by Congressman Herger that supports the President's plan is indexed for inflation. That means we don't have to come back and ask Congress to look at those numbers again, and we appreciate that, and we hope that that provision stays in when the package goes before Congress.

And lastly I will just say NFIB is a member of the Family Business Estate Tax Coalition. Repealing the death tax is one of the most important issues for our members.

I met with a staffer the other day, and he mentioned that he used to own a small business. He said it was an ice skating rink in Texas. He said, you know, it was a small business—.

Chairman MANZULLO. South or north Texas?

Ms. BATTLE. It was south Texas, believe it or not. It was south Texas, and he said it was a small business. I never thought of it as a very big business, but come to think of it, the building was worth \$10 million. So when you consider the fact that this is a person who had a small business who would be hit by the estate tax because his money was tied up into those assets, he wouldn't be able to pass that on to his children, that really speaks to the unfairness of the death tax. And Congress has repealed it, but permanency is really what we want, and we hope to see that in this Congress. Thank you.

Chairman MANZULLO. Dr. Martin Regalia.

#### **STATEMENT OF MARTIN A. REGALIA**

Mr. REGALIA. Thank you very much, Mr. Chairman. I want to commend you for holding these hearings and thank you for inviting us to participate.

When we look at our economy, we have been growing now for five quarters, coming out of a very brief recession that really began in the last waning days of the last administration, but the economy really has not performed up to par yet. It has lost its confidence. It has lost its direction. It has lost its balance, and it has lost its momentum. And as we look around for policy, solutions to that, we see the Federal Reserve having cut rates about as far as they can. And so it really becomes important for Congress to adopt fiscal policies which will continue the growth in our economy and put the growth from just below par where it is not creating jobs to just above par where it is. And we think that the President's plan for creating growth and jobs is a perfect way to do that.

We believe and support—believe the plan and support it strongly. We look at the pieces of the plan really as a puzzle. One piece helps one particular aspect of the economy. Another piece helps another. Certainly the expensing provisions and the rate acceleration will help small businesses that pay taxes as individuals. It will help them to grow, help them retain earnings, but when we look at the other pieces of the puzzle, we look at things like the dividend, the elimination of double taxation on dividends that will stimulate consumption. That will help other people to spend.

And as I travel around the country and talk to businesses of all types, they seem to have one thing in common. What they need now, what they want now are customers. They want customers coming in the door and spending their money. This particular type of plan, which is balanced, which is across the board, will do that. It will put people in the doors. It will start people spending money, and when that happens, businesses will invest, and the economy will grow.

So once again, we thank you for this roundtable. We support the President's plan strongly, and we encourage you in the Congress to pass it as quickly as possible.

Chairman MANZULLO. Thank you.

Chairman MANZULLO. Let me interject a question here. When I ask questions of the economists—you know, Will Rogers' story about the economists.

But let me ask you a question. How do you get people to buy more? Is it the chicken or the egg? This seems to be the problem.

Mr. REGALIA. When we look at consumption, we see a couple things that drive it. First and foremost, it is disposable income, and you get disposable income by creating jobs that pay good wages and by leaving those wages with the individuals. So it is two-piece. It is creating the jobs that pay well, but then once people make money, it is leaving it there. That is first and foremost.

The second aspect is one of confidence. People spend when they are confident. They don't spend when they are worried, and right now across the board people are worried. They are worried about what is happening in Iraq, but they are also worried about what is happening domestically. Is our public policy moving in the right direction. This type of an approach will encourage them in that regard. It will say to them, yes, we are—we do understand what the issues are. We do understand that we have to be a more confident society. We do have to understand that we have to encourage businesses to take the risks that they are in the business to do. That is what businesses do. They take risks.

So this type of an approach, we believe, will help as far as we can. We can't solve the situation in Iraq, but we can solve much of the situation here, and we believe this plan will do that.

Chairman MANZULLO. Thank you.

Patricia.

#### STATEMENT OF PATRICIA WOLFF

Ms. WOLFF. Thank you. I am here today on behalf of the 5 million members of the American Farm Bureau Federation. We represent growers and producers of everything you could think of that you could eat and every natural fiber you could wear.

I would like to start by talking about the President's plan and then moving on to another issue that we are very concerned about, and as I talk about the President's proposal, I would like to talk about it in two parts. First, from a business aspect, the small business expensing provisions in that package are very important to farmers and ranchers. We in agriculture have been going through a very difficult economical time in recent years. Farmers have been patching things up and making things do for an extra year for a long time now. They are not in a cash surplus situation, and so buying things they need for their businesses have been very difficult.

With that increase in small business expensing, there are two bonuses. One is that because they won't be able to recoup that expense immediately, that they will be able to go out and purchase the things that they need to upgrade their businesses and keep their businesses profitable. And second of all, there will be a stimulating economic effect on the world communities that they support. So the small business expensing provisions are very important to us.

Second of all, from an individual standpoint, over 90 percent of farmers do pay taxes as individuals, and so all of the individual tax

cuts in the President's package are very important, the marriage penalty, the child credits; could make a long list. But any businessman who files as an individual finds those tax cuts very helpful as they try to make a go in their—.

Chairman MANZULLO. You said 9 percent. You meant—.

Ms. WOLFF. Ninety percent, over 90 percent.

Lastly, I would like to turn to the death tax, because the permanent repeal of the death tax has been our top priority for many years, and we are comforted by the fact that—in knowing the majority of Congress does support permanent repeal of the death tax, but we have been prevented from achieving permanent repeal by some arcane Senate rules.

Death taxes are very important for farmers and ranchers for two reasons. The first reason is that at death, a tax which can be as high as 50 percent can just put a farmer or rancher out of business. Farmers are worth money because of their business, not because they have cash in the bank, and when they die, Uncle Sam wants cash. And so you can't take your tractor or your trowel down to the IRS and say, here. No. You have to sell. And when you have to sell, you are selling at fire sale rates, which is a double wammy. And so the tax is very, very harmful to farmers as they try to pass the businesses from generation to generation.

Second of all, the death tax hurts farmers while they are alive, while they are still in business. We call it a prepayment of the tax.

Ms. WOLFF. Farmers don't know when they are going to die. They don't know what they are going to be worth when they die. And they don't know what the tax law is going to be in the year they die. And so as a result of that, they must spend money for life insurance policies, for accountants to reorganize their business, for attorneys, and all that money is money that could be better spent growing their business, keeping their businesses profitable.

So I can't emphasize enough that the permanent repeal of death taxes is something that we hope Congress will address and address quickly.

Mr. BEAUPREZ. Patricia, question. Your membership primarily are small farmers and you outline very well the problem that they go through with the death tax. I know that from very firsthand experience. It crosses my mind, though, I am wondering how many of your members might be struggling with the affordability of health care and how many of them might be doing, frankly, without health insurance because of that cost.

Ms. WOLFF. Okay. I don't know how many are going without health insurance. I think it might be notable at this point to say something positive, in that 2003 is the year that we have achieved 100 percent deductibility for the health insurance premiums that people pay. And that is something that we waited a long time for and will be helpful to us. Our members do see skyrocketing health insurance costs. They also see loss of service in rural areas. We have come out in support of associated health plans as a way to address that issue and we will be presenting testimony on that in Congress.

Mr. BEAUPREZ. Mr. Chairman, I would submit at least a question, because I don't have any facts to back it up. But I think the health care issue for family farms are significant, not only to the

farmers, but I think that is an industry that really struggles in providing health care benefits to their employees as well, for the same reason of cost, and it is a serious problem I think in the agricultural community.

Chairman MANZULLO. Michael.

#### STATEMENT OF MICHAEL WOLYN

Mr. WOLYN. Thank you, Mr. Chairman. Thank you for conducting this roundtable. I represent the Bureau of Wholesale Sales Representatives and I am here to speak on behalf of the National Association of Sales Reps Associations, which is our lobbying arm, and our 10,000 members who are primarily subchapter (s) corporations or independent contractors. These people are people in the needle trades, people in the gift industry, people in the golf industry, the people that would supply Robert's store in Oklahoma City.

The biggest thing that we see and the thing that we applaud quite candidly in the President's proposal is the section 179 expensing increase. And I have heard a number of people speak of that issue.

Our people are addressing it from a different standpoint and that is the size of automobile that they must procure to move their product up and down the streets of North America. Unfortunately, the current Tax Code states that a business vehicle is a vehicle over 6,000 pounds. Our people are not buying SUVs, Mr. Chairman, for the purpose of driving an SUV. They are driving an SUV because of the size of the payload they can carry.

We did a survey prior to coming into this meeting: 31.5 percent of our members drive trucks or vans—those would be conversions; 40.9 percent drive automobiles; and 27.6 percent drive SUVs. The problem we are having in our industry is that our people are driving 30-, 40-, 60,000 miles a year. Under the current expensing allowances they would expense an automobile over a 5-year schedule. They wouldn't be driving that automobile. Quite candidly, the automobile is burned out after about 24 months and so they are rolling.

The same thing happens for the bundling of software and hardware. We have had that discussion before. So we applaud the President's proposal.

Because our people are sole proprietors or subchapter (s) corporations, we also applaud the reduction in marginal rates. This is going to help many of our folks. Our folks unfortunately fall under the radar screen of most small business advocacy groups or most small groups because we are tiny. Most of our folks are sole proprietors as I indicated, one-person shops, and the thing that we are finding more and more applicable to health care and applicable to the members' comments regard farmers. We have the same problem. The average age of our group is 48.9 years old, and I submit to you that if you are 50 years old or older in this society right now, God love you. Health care is doggone near unavailable if it is affordable. And something has got to be fixed.

We have just come out of a rather large debacle, and in the next hour we will talk about health care delivery in this country. And affordability is a big part of accessibility and that is something we want to address. But we appreciate your efforts, Mr. Chairman, and we look forward to working with you.

Chairman MANZULLO. Kristie.

#### **STATEMENT OF KRISTIE DARIEN**

Ms. DARIEN. Thank you, Mr. Chairman. On behalf of the National Association for the Self-Employed, we greatly appreciate you holding this roundtable. The NASE represents microbusinesses, businesses with 10 or less employees, and the self-employed. We have about 50 percent of our businesses are home-based businesses.

We are pleased with some of the provisions given in the President's proposal, most especially the increase in expensing and the income rate reductions; especially the income rate reduction will pull a lot of money back into the hands of our members. Our concern, though, is that that money will not be used to be reinvested in their business for growth purposes.

Currently the health care situation in our Nation has reached an all-time crisis level. We recently did a study of last year which showed us that our members felt about—about 80 percent of our members felt that part of their health care was in a crisis situation. They couldn't afford it and they were literally barely holding on by the skin of their teeth. We feel that any money received will probably get reinvested into keeping or maintaining the current health care that they have. So we really would like to see things done to make health care more accessible, more affordable.

We also would like to see more done for microbusinesses and the self-employed. There really is not a level and fair playing field for this particular segment of the small business population. The self-employed have a completely different tax burden in comparison to someone who is incorporated, most specifically tax and health care. One thing in particular, as we luckily reached 100 percent deductibility, but the self-employed still have to pay self-employment tax on their health insurance premiums. That is an added 15.3 percent that they will be paying on their health insurance premiums because they cannot deduct it as an ordinary business expense just like someone who is incorporated. And that is a big issue, considering that there are approximately 15 million people in the United States that are self-employed.

So we again appreciate all the efforts that, you, the Small Business Committee, and the SBA have done. But we are hoping that more gets done, most specifically for the microbusiness community and the self-employed. Thank you.

Chairman MANZULLO. John Satagaj.

#### **STATEMENT OF JOHN SATAGAJ**

Mr. SATAGAJ. Thank you, Mr. Chairman. I will be brief. I think we've kind of beat this horse pretty much. It is pretty clear that we know what we want and what we are all hoping for, so I am not going to spend much time going over it. I would just reemphasize you have got to get it in the hands of the consumer. And on that take-home paycheck, that drives it all. I mean, you have got to have something more coming home in that take-home paycheck. So we need it there.

And then we have got an industrial policy in this country for manufacturing in the U.S. I mean, we talked about little pieces of

this. But we don't know what we are doing to keep manufacturing going in America, and we have got to do a better job in coming up with what is it exactly that is going to make us more competitive in a comprehensive way, not a little piece here, not a little piece there; what is going to do it to keep the manufacturing in the U.S.

I can tell you there are not three Members of Congress or three Senators who can articulate to me a policy of what would be good policy to keep manufacturing in the U.S. In fairness, I can't find three people around this table, myself included, that could tell you what it is that is a comprehensive policy. We need to get together and we need to figure that out in a good way. That is a good subject for the committee to work on this year. Thank you, Mr. Chairman.

Chairman MANZULLO. Well, we are having a series of at least five hearings and we are asking the question that nobody wants to ask, and that is: Is America in a post-manufacturing state? You have got to ask the tough questions. We are not going to get out of this recession until manufacturing gets reestablished. Washington does not understand that.

We held a hearing about a year ago where we heard the Fed, believe it or not, felt we were coming out of the recession and was going to raise the interest rate. The Fed raised the interest rate as June of 2000, believe it or not. And we asked Dr. Roger Ferguson, who was the deputy to Dr. Greenspan at that hearing, and he said that manufacturing is only 16 percent of the GDP. I said, without mining, agriculture, and manufacturing this Nation is going to crumble. And I said, would you be willing to visit our district and smell the sweet smell of machine oil? And he came out. Lloyd, I think you were there. We held—it was—I mean, just a magnificent man. He brought with him somebody from the Chicago office of the Fed who knows machinery, has a machinery background, and Garrett Anderberg who is with Dell Machine has now become a member of the group that puts out the brown book each year on that.

Mr. FALCONER. The beige book.

Chairman MANZULLO. Did I say brown? That is what happens when you don't change the machine oil. But we are getting into the areas of manufacturing that no one is talking about. I mean, we held—or yesterday we had a man from China who is building a city, 600,000 people, \$2 billion in capital, meeting with our tool and die and mold manufacturers back home. The Chinese understand what American corporations do not; and that is, the Chinese are looking to the United States to recover. The Chinese will think long range and American corporations only think to the next quarterly estimate of earnings. The Chinese believe the United States has to lead the recovery. And we have been working with the Chinese companies because we were so frustrated working with American companies. But they are coming back to our district, working to give contracts for tool and die and molds to our guys back home to restart that particular industry. It is an astonishing thing what has happened to manufacturing and we will be getting into more of that later on.

But it is—we look forward to working with you on that.

Chairman MANZULLO. Oh, Lee, from the restaurant business.



**STATEMENT OF R. LEE CULPEPPER**

Mr. CULPEPPER. Thank you, Mr. Chairman. I would actually like to move over to the sweet smell of olive oil, if I could.

Chairman MANZULLO. There you go.

Mr. CULPEPPER. First I want to commend you for holding this roundtable discussion. It is great to have the Administrator with us. For everybody's edification, the Chairman's brother runs a restaurant, and the Administrator was raised in a restaurant family and has extensive experience in helping run that family-owned business, so they are here to correct me if I say anything wrong. We will be working with the other members to find the restaurant background in your past experience. I think it is about 1 in 3 people at one point worked in a restaurant, so the odds are with me that a lot of you have done that at some point.

I will try not to be redundant, but let me mention a couple of things about the current situation in the restaurant industry. There are over 800,000 restaurants in America and about two-thirds of those are small businesses. So while you have McDonald's and you have Burger King and Wendy's and so many others that are members of ours, you have a lot of those people associated with those companies who are franchisees and they are small businesses. And then, obviously, you have a lot of mom and pops. So it is an industry with small business to this day. We obviously employ over 11 million people. But over the past year and a half, we have lost about 250,000 jobs in the industry. And, in fact, last year was only the second time in the last 30 years that the restaurant industry had lost jobs. We have been a growth component of the economy and of GDP for a long time. And sales are up slightly but employment is down. So the President's package focusing on economic growth and jobs is very important to us.

Again, not to be redundant, but I think Bob said it a long time ago, very succinctly. And that is, we need to get money in the hands of the consumers. If we could have a greater sustained growth in sales and restaurants, I think those jobs would come back.

And so I think the most important part in the first instance of the President's plan is the accelerated income tax rate cuts. It helps for many of our members who are (s) corps and sole proprietors to be able to take advantage of having more money to expand and create jobs. But it also helps get more money in the consumers' hands so that they can go out. We hope they are going to go out to eat when they begin withholding less out of those paychecks if Congress sees fit to pass that plan, as we hope they will.

So if you can create that solid and growing demand for goods and services, the expensing provision will benefit many of our members and, again, that will help create jobs.

I can't speak a lot to the dividend component of the President's proposal except that it strikes me as an excellent tax policy. I don't yet have an economic analysis of what the impact on restaurants would be.

Let me touch briefly on a couple of other issues, and I will quit speaking. Obviously the association health plans is a huge issue for us. The average table service restaurant saw health insurance premiums increase 23 percent last year. Again, that is a drag on in-

vestment. That is a drag on jobs, if you have that sort of increase in your cost, and ultimately it also leads to a lot of companies that want to offer the coverage having to quit offering it; otherwise they are going to have to eliminate the jobs. So it is a big problem for us.

Death tax permanent repeal. You have heard it all around the table. I won't repeat it except to say a very big issue for us.

And I was delighted to hear the Administrator focus on tort reform because legal reform and tort reform is a huge issue for us. We have so much cost in this industry that is tied up in litigation for many cases that never even get to court. But you have to—you have to go to court or you have to settle out of court, and it costs a lot of money. Many of you have seen in the news some of the lawsuits from people who are suing restaurants, many of our members claiming that they are overweight and they have health problems because they ate too much at these restaurants. And it is the sort of thing—we say it gives frivolous a bad name when you look at these types of lawsuits.

So we actually have worked with Congressman Ric Keller who has just dropped in a bill called the Responsibility in Food Consumption Act. And that is going—that needs to be added to your list of tort reform bills that—but just like so many others, though, and in a broad sense class action lawsuit reform and other bills that can help businesses in these—either not have these cases come to court or at least have some venue that would be more favorable would be very helpful I think to all of us.

So thank you for this opportunity to be here with you.

Chairman MANZULLO. Thank you.

Chairman MANZULLO. Karen.

#### **STATEMENT OF KAREN KERRIGAN**

Ms. KERRIGAN. I will be really brief as well. Let me thank you, Mr. Manzullo, for pulling together this roundtable.

Administrator Barreto and other Members of Congress, our organization and our membership is just really optimistic about what can happen this year for small businesses both because of your leadership and involvement and also because of the President's commitment to the small business and entrepreneurial sector. We are fully in support of the President's jobs and growth package. We feel it is a balanced and comprehensive plan which recognizes the highly interdependent nature of our economy.

Accelerating and making permanent the individual marginal rates is central to allowing our members to keep more of their capital, to invest in their businesses, to invest in their employees. And unfortunately, for many, I think as Kristie had brought up, we are also having the cash to deal with their ever-increasing health insurance premiums. This is truly a major, major problem with our membership. The expensing provision coupled with the marginal rate acceleration and reduction is a nice powerful package that is truly going to help our membership.

I think with the package that the President put forward, it is obvious he is listening to small business. We heard at Waco, when we were down there in Texas, from the small businesses who participated in that session. And I am sure you heard this, Adminis-

trator Barreto, and you also hear this, Chairman Manzullo, in your travels around the country and your district, that small businesses want to see self-financing for their capital needs. They want certainty in the economy but also in the Tax Code. And the package and I think many of the initiatives that the President put forward is going to help in this regard.

On the health care front, I agree with everyone on the need to address that problem and address it very aggressively. SBFC is a strong supporter of the association health plans. We also support medical savings accounts, making them universal. I know people like MSAs, making them permanent, as well as individual tax credits. So there is a lot the Congress can do this year for small business and the self-employed, and we are very enthusiastic in terms of where our starting point is.

Chairman MANZULLO. David, you know Todd is back here. He is just sitting back here seeing how well you are going to speak in his name.

#### STATEMENT OF DAVID MACK

Mr. MACK. He can just enjoy it. I also would be brief. Everyone has made very brief points and I will try to supplement what has been said. As for the stimulus package, we strongly do support the expensing provisions as well as the accelerated margin of tax cut.

I would also like to echo Mr. Merski's support for the administration's tax savings and retirement security proposal which take care of some very serious problems in pension reform that need to be addressed; and Kristie Darien's speaking to the self-employment tax on health care.

Chairman MANZULLO. If the groups want to work on a bill for that, I will introduce it for you.

Ms. DARIEN. We already have something worked out.

Chairman MANZULLO. Okay.

Mr. MACK. Really those two, so I just wanted to get in on both sides strategically. But those two principles in the future, the reform of pension systems so more can be offered on behalf of both employees and employers, as well as allowing for those employers and small business owners that have to reinvest in their businesses and have little left over for more traditional savings can be fulfilled through a lot of the outline that is given by the President's package.

Chairman MANZULLO. Okay. We are really open. Tell me anything you want involving tax or my tie or whatever you think is relative to the business. Paul?

Mr. MERSKI. You had alluded to earlier, we are going to do a tax cut; and given the tightness of the budget and economic growth that we are facing now, what is going to be the best thing for your—what do the economists look at as what is going to be the best bang for your buck? What do the economists look at as what is going to be the most complete tax cut we can provide?

And let me offer three criteria:

One, the tax cut has to be permanent. If you are going to change people's behavior, if you are going to get people to spend more in the retail stores and the restaurants, the tax cut has to be permanent. A quick one-time windfall doesn't change people's behavior.

So I would suggest that you make any of the tax cuts permanent. If you look at the death tax it wasn't permanent. Very few if any people have changed their estate tax planning, because that tax is not permanent. You are not changing behavior.

The second criteria is the tax cut has to be appropriate size and scale. Let's face it. We have a \$10 trillion economy; a 10 billion or \$50 billion tax cut is not going stimulate a \$10 trillion economy. So the President's putting a bold plan of 609 billion on the table over 10 years is the kind of tax cut we need to stimulate a 10-plus trillion dollar economy a year.

The third criterion, and from a commerce perspective probably the most important to change people's behavior, is the tax cuts are critical that they be done at the margin. You have to cut all the tax rates, particularly at the margin where people decide, hey, with my last dollar that I just made, am I going invest it and face a 60 percent tax rate? Am I going work harder to earn an extra dollar if I am going to pay a 40 percent Federal tax right off the bat on that? So it is critical that the tax cuts be done across the board and particularly the top marginal tax rates, where people's behavior is influenced the most, be cut as well.

And while the SBA Administrator Barreto is here, I would throw out a question to him on the SBA 7A loan program. Every year the community banking industry provides hundreds of millions of dollars in loans to small business through the SBA 7A and 504 loan programs. But every year we come to Congress with a budget fight to restore the funding that has been cut for those programs. And I know they are working on the budget for that from last year, still working on that in Congress.

I would like your comments on the importance in the new budget's offering for 7A lending that is so valuable to small businesses that don't have access to lending from any other source except those programs. Thank you.

Mr. BARRETO. Thank you. I appreciate that. And I want to thank everybody around the table for your comments and your input. I want you to know that the President hears your comments. He really gets it. I want you to know that I hear your comments. And I have had many opportunities to work with your organizations, work with you individually, and I look forward to building on what I think is already a great relationship, but we want to continue moving forward. This is a big year for us. It is our 50th anniversary and we will be able to talk a lot about the success stories. But we need to talk about the future as well and I appreciate the question, Bill.

You are absolutely right. Small business lending is vital. I think of it as the oxygen that small businesses need to start their businesses, to grow their businesses and to survive over the long term. You know I have said many times before that it is not so much that we start so many small businesses in the United States, it is important that those small businesses survive; because that is when they start creating jobs and contributing to their tax base and contributing to their communities and innovate products. It is vitally important.

And we take the responsibility of being able to facilitate those loans along with our partners very seriously. Over our history, we

have done something close to \$140 billion in access to capital and we have helped create many, many companies that are household names today. We need to be doing that in the future as well.

I believe that we are making significant progress. I know that the Chairman is passionate about this and we have worked very closely with him and we are—we have some wins, if you will. I believe that before not too long, we are going to have a lower subsidy rate that will actually take place this year, and that is going to help us to expand our budget authority which is critical to us being able to do this.

I will also tell you a couple of other things that we are learning. We are learning—and somebody mentioned this before—that most businesses are capitalized with very little. It is just amazing. I am getting messages that show the majority of small businesses are capitalized with 50,000 or less.

One of the things that we need to be doing at the SBA, and I know that the Chairman agrees with this, is that we need to make sure that we are helping as many of those small businesses as possible. Our portfolio right now, about 80 percent of the small businesses that come to us and get 7A loans are getting those loans under \$500,000, doesn't mean that we shouldn't do or can't do larger loans. We need to do larger loans and we need to explore different ways to be able to do that. We are still waiting for, you know, the continuing resolution to be lifted, and we will be taking a look at the cap that we currently have in place. But it is something that we know that is very important for us to be able to help small businesses at all levels, the start-ups, but also those ones that are evolving. And we appreciate the partnerships that we have had with our lenders and we are looking forward again to strengthening that partnership as well.

Again, I want to thank the Chairman for allowing me to be here and contributing and listening. I learned a long time ago—and the Chairman knows this—that you learn a lot more by listening to your customers than you do by talking at them. Your customers will tell you everything they need to be successful, and we commit to you that we will continue listening, working together with you, so that we can benefit as many of those 23 million small businesses.

I also want to thank very much Congressman Beauprez and Congressman Bradley for their presence and their support as well. And again, I wish you the best of luck and I know that you will have a very informative and successful roundtable. Thank you very much.

Chairman MANZULLO. Thank you.

Bob, you're up next.

Mr. BENHAM. Thank you, Mr. Chairman. I would like to touch on three things that haven't been mentioned so far that are very important to a number of retailers, particularly smaller retailers. The first point is important to all retailers, and that is the repeal of the Federal unemployment surtax which is an unnecessary burden for our businesses. Congress extended to 2007 the Federal unemployment surtax which is used to offset the cost for programs unrelated to the unemployment fund. It is eight-tenths of 1 percent. It is an unnecessary burden and it has become outdated for business.

I will give you a real world example of what this means, for example, to Balliet's. That costs us \$8,000 a year that we shouldn't have to spend. And just to put that in perspective, we have to generate at the 3 or 4 percent bottom line, which is what we are targeting, we need to generate an additional 200 to \$230,000 a year in sales to generate \$8,000 in net profit. That is a big number to us.

Our health care this year went up \$13,800. That is another 300,000 we have got to produce in income. It is becoming very, very difficult to sustain financial viability for a business like ours. So we would love to get Congress to look into the repeal of the Federal unemployment surtax. It would benefit many, many businesses.

The other one that is going to be coming back at Congress in the not-too-distant future is leveling the playing field for remote sellers. There now is an inequity between remote and main street retailers. For example, at our store we will have a customer come in—and we have a big cosmetics business in our store. And perhaps the customer will sit down at the Bobby Brown counter, and our line girl will go through a process with her—give her a makeup lesson, do a prescription for her, suggest products—and they will get up and leave, and we know where they are going. They are going to the Internet, and they are going to buy these products online after we have invested in inventory and space and location and our store and salaries and commissions and all the other things, and we lose that sale because it is an unlevel playing field. Other stores may have these things in catalogs they mail into our State. They don't have Nexus in the State of Oklahoma; therefore, they don't have to charge sales tax. We lose the business. Our communities lose the sales tax revenue and, boy, do we need them now in the State of Oklahoma and many other States.

Chairman MANZULLO. But you know, Bob, the States have the authority to enter into agreements among themselves to reciprocate on the sales tax.

Mr. BENHAM. Yes. We have been through the simplification process now. We have come a long way on this. We were absolutely under water on this when we began the year 2000. But we now—Congressman Istook, my guy in the Fifth District, who is just great, provided me enabling language for us to go back and simplify the classifications and the language and went back to the State legislatures and the treasury folks, the financial folks in the States. They have achieved that simplification now.

And now the next step in the process is it is going to the legislators for enabling legislation. Then it will eventually come back to Congress so that we can overturn the quo because the problem originally why that occurred was because there were so many taxing jurisdictions and it was so complicated for sellers to collect the taxes. If we can overcome that and simplify, then we have a chance to be competitive with out-of-state competitors who are offering similar products on the Internet or through catalogs. Big, big issue for independent stores, small stores.

Thank you, Mr. Chairman.

Chairman MANZULLO. Jackie.

Ms. VLAMING. I would like to speak to association health plans. Malvo and Witt both strongly endorsed association health plans.

But I would like to give you a testimonial from my company. Coverall North America, Inc. does not make coveralls or overalls. What we do is we franchise commercial janitorial cleaning businesses. We have 4,500 domestic franchisees and they clean a lot of those restaurants. But those domestic franchisees do not have health insurance. If there were an association health plan available, we could provide health insurance or at least provide a vehicle for providing health insurance to those franchise owners. We have cobbled together a program for them where they at least have Workers' Compensation at affordable rates. We have the self-insured program they participate in. And on top of that, we are working to get the catastrophic health insurance policy in place at an affordable rate, so if they are injured on the job, when Workers' Comp leaves off, the catastrophic plan will pick up. But it is very important that those 4,500 people have health insurance for themselves and their employees and their families.

And another example, too, is my brother owns a small business in Pascagoula, Mississippi. He is a law clerk. He has four or five employees, but he cannot afford to provide health insurance for those four or five employees. Association health plans are very important, not only for Malvo and Witt but for companies like mine who want their employees insured and their franchise owners and their employees insured.

Chairman MANZULLO. How were you able to group together these franchisees for Workers' Comp?

Ms. VLAMING. What we did was for one thing—because our customers, the customers that we claim to be entitled to Workers' Compensation—we created a captive and they participate in the captive.

Chairman MANZULLO. That is interesting.

Dorothy.

Ms. COLEMAN. Thank you, Chairman. I just wanted to go back to your comments about the manufacturing industry. We are very pleased to hear that you are going to have a series of hearings focusing on the plight of manufacturers. And we believe certainly, and I think you do too, that manufacturing is the backbone of the economy. They provide not only high-quality products but also high-quality jobs. Manufacturing at the same time is at a crossroads. We were certainly the first to feel the recession and now the last to feel the recovery.

Later this week, the NAM board of directors is going to be meeting and focus—its major focus of the meeting would be on our manufacturing agenda. And I certainly hope we will have an opportunity to talk about that with you later on.

I also wanted to just tell you briefly about a phone call that I got yesterday from one of our small manufacturers from Ohio—from Fostoria, Ohio. He called ostensibly to talk to me about tax policy and tax rate cuts and how important they were, but then he went on to tell me that he was fearful about the future of his business. He is a third-generation owner of a specialized machinery factory. There are—a lot of their customers are in the automotive business. He sees the future as very uncertain. He is worried not only for himself and his family but also for his workers. So I think

we are hearing that from a lot of our members. And we certainly appreciate your interest in manufacturing.

Chairman MANZULLO. Tricia.

Ms. WOLFF. I would like to talk just a minute about some specific tax cuts, and these are not new ideas; they are leftovers from the last Congress.

The first deals—the first issue is in the area of energy, and we have—as Congress debates energy policy, we have a tremendous opportunity to provide some tax incentives for renewable energy. We have had success with the production of ethanol. That has been possible because of tax credits. And now there is an opportunity to help farmers in other industries by promoting other biofuels, the most notable of which is bio-soybean oil.

Second of all, I would like to talk about a tax proposal that would help farmers self-insure or save for a rainy day. The nickname is “Farm Accounts,” farmer-managed risk management accounts. It is a self-help tool where taxes would be deferred on money that farmers save for a rainy day. We all know that the farm economy is very cyclical. Farmers don’t know from one year to the next whether they will have zero income or a banner year. And if there were a way to encourage them or help them save for the rainy days using these farm accounts, it would help even out the bumps in the farm economy and hopefully reduce some of the need for asking Congress for help.

Chairman MANZULLO. John.

Mr. SATAGAJ. Mr. Chairman, I would be remiss if I didn’t bring up an inside-the-Beltway issue. But those of us who represent small business on a macro-level, we want to get this independent advocacy bill resolved very quickly. Let’s get it done. All of us, like my passionate friend behind me, Mr. Giovanni, we feel strongly that we need to get this done, and anything we can do to help you get that bill, let’s do it. We brought it up. Some of us were with Chairwoman Snowe the other day when we raised this issue about let’s just get it done. It is something we all should just work on and resolve this. So we are committed to do this and we are going to do anything we can to get that resolved.

Chairman MANZULLO. Kristie.

Ms. DARIEN. Thank you. Just for the record, I wanted to—the NASE would like to applaud the Bush administration for all the efforts they have been doing on behalf of women’s entrepreneurship. The NASE strongly feels that Congress should make more strides to assist both women and minority business owners most especially, because they are the future of entrepreneurs if you look at the statistics as to the new businesses coming on board.

We think that two particular pools that exist with these segments are home office issues, most specifically simplification of home office deduction. In the last Congress Representative DeLay introduced a bill on that. We would like to see that reintroduced and to get passed.

Also clarification of independent contractor status is a huge issue not just for the self-employed but for minority women business owners who tend to be self-employed, as well as microbusinesses. We would like to see that get done this year. It is a top priority for our association to get independent contractor clarification. And



we would like to work with the House Small Business Committee to get that done. Thank you very much.

Chairman MANZULLO. Lloyd.

Mr. FALCONER. Thank you. One last thing, if you really want to give a big tax cut, is to review the Social Security system. The gentleman here to the right had it absolutely correct that minorities and women are cash cows who do not collect but they contribute. And that—to me, that is very sad. But for the minuscule sum of \$765 per 10,000, that is what an individual contributes to FICA-S and FICA-M, per \$10,000; and President Bush is talking about those who will be paying virtually no taxes, at least Federal withholding at \$40,000. That would translate into approximately 32- or \$3,300—I didn't do my math on it—but per family that has income of \$40,000. If that were invested over a period of 40 to 45 years at compound interest, we could eliminate two things: One, we could eliminate Social Security as we know it and Medicaid; and secondly, we would immediately be giving people money back or not taking away from them in the first place so that they could spend on other things. And this, by the way does not include the match that companies have to provide.

I think that this is down the road, but I hope it isn't too far down the road because the amount of money that is spent in just gathering money, accounting for it, redistributing it, in my mind is a sinful waste of time and energy. And if we are going to be competitive in the world market, that is the last thing we can afford is to be wasteful of our precious time and our money.

Chairman MANZULLO. There is an interesting article that appeared in the Washington Post about 2 weeks ago, talked about Dr. Hubbard who is the head of the Council of Economic Advisors, and dealing with why the President threw in the elimination of the dividend tax, and he said the reason for it is a testimony to shift the United States from tax on income to a tax on consumption. And I thought it was a pretty bold move, because that is the first time a President has done something that radical just to get the people talking about it. And it will probably—probably won't pass, at least now, but people need to talk about new ideas like that. That is how things happen.

Karen.

Ms. KERRIGAN. Ditto also our support on the Congress doing something about the independent contractor issues, making the tax cuts arbitrary, 20 point test more certain. Not only is this important for small businesses and entrepreneurs, existing businesses, people who are just starting businesses, but also for people who want to be contractors. It just makes sense that the independent contractor rule is modernized to our 21st century economy. So any work that the committee will be doing on that, certainly we would like to work with you to help you advance that.

But another issue that we were very supportive of, a bipartisan proposal in the last Congress—and, Chairman Manzullo, your Committee had hearings on this—speaks to the need to be more supportive of start-up businesses. We supported the SUSA accounts, the start-up savings accounts which would allow small businesses in their first 5 years, its first fragile years, to set aside

money, tax free, that they can draw down later when they hit that inevitable cash crunch.

As you know from holding hearings and studying the issue now for many years, we just lose too many of these businesses because of access to capital and because of those capital crunch reasons. And so the SUSA accounts idea is one that we still support and would like to see addressed as well by the Congress.

Chairman MANZULLO. Bob.

Mr. BENHAM. Thank you. I note the clock is winding down.

Just two other very, very quick subjects. Number one is minimum wage, which I am surprised hasn't come up yet this is a big issue. Lee, I know it is always on your platter.

Mr. CULPEPPER. I didn't want to provoke controversy.

Mr. BENHAM. I understand. I am a retailer and I am not a Beltway guy so I guess I can do it. But we certainly would like to see Congress hold the line on minimum wage, particularly at this fragile point in time for our economy. It is not so much the minimum wage itself, although that is very difficult for businesses to absorb. But there is a significant increase. But it creates upward pressure on all wages, and that is really the difficulty for a store like mine. We don't have anyone at minimum wage in my business. And I know many small retailers, when people come in and they are good, they very quickly give them additional increases.

But we are all competing against other industries for good employees. And I am competing not only against other retailers but all kinds of other businesses in Oklahoma City, and it is much tougher to compete against these higher wage rates. So if minimum wage comes up, we hope that Congress will hold the line, particularly at this point in time; and if we have to give it away, let's get some real meaningful regulatory relief for small business in the process. That would be my comment on minimum wage.

And number two is the issue that won't pass and won't die, and that is bankruptcy reform. We have had that thing on the 1-yard line, how many times, and we can't get it across. I guess we need somebody from the Tampa Bay Bucks to get it in the end zone.

But this is an issue for many small retail businesses as well, because we extend credit to our customers. And when we have someone take bankruptcy who has the means to repay some portion of that debt, we would like to see that happen. We have had record numbers of bankruptcy filings as people try to beat the clock on what they think is going to be bankruptcy reform in Congress and it hasn't happened. It is primarily on the Senate side. There was a roadblock at the White House 2 or 3 years ago as well. But we hope that we can get real bankruptcy reform through the 108th at some point or maybe the next Congress. But these are also very critical issues to retailers and I am sure other industries as well.

Thank you, Mr. Chairman.

Chairman MANZULLO. We have been working on an amendment to the existing bill that has been trying to get through. A lot of small businesses are being hit on the preferences, a sleeper out there. If an individual or company pays for goods and services within 90 days of the filing of bankruptcy, then the trustee comes in and he can get all that money back. I am not satisfied with this bankruptcy bill that is out there. I mean, I practiced bankruptcy

law for 22 years. The rate of efficiency of Chapter 13 paybacks was—you know, it wasn't that great. Trustees were really bent out of shape on it.

But I am in favor of having something—some payback is ordered as opposed to straight settlement liquidation. The small business issue on there is the preferences. We have been contacted by a lot of people who we run up against the banks on, because the banks will come in and they want to have as much of the corpus of the trust estate as possible because they say that we undersecured. Well, that is an issue that they should determine before they make the initial loan on it not go and penalize the little vendors. I mean, some of these are little fellows. We have got people out there that it may have been \$1,000 they pay back, and 500 of that represents product that they had to buy themselves out of pocket, plus \$500 of their own money to put into the bankruptcy pot. And I would like to see the different organizations here consider that to be part of it. It is going to bring a big war because it brings the unsecured little guys up against the security lenders. And I have represented both when I practiced law for a number of years.

It doesn't have to be unfair to banks or the secured lenders. For example, we could set a threshold up. Under \$2,500 the trustee doesn't—you know, is presumed not to be a preference. Now, it is an actual presumption of law for any amount that is given to any, but that is one of the problems of bankruptcy. Plus what Senator Schumer did on the Senate side, bringing a social issue and attaching it to a business issue. And you can blame him for the mess that happened, that they never ask a Member of Congress to pit a business issue against a social issue.

Mr. BENHAM. Thank you, Mr. Chairman.

Chairman MANZULLO. Mr. Alford.

Mr. ALFORD. Mr. Chairman, on procurement we have got the small business goal, we have got the hub zone goal, we have got the women's goal, the small and disadvantaged business goal, the AA goal, totally being ignored by procurement agents at these Federal agencies. Some companies even go beyond our shores to get gain a political favor and to contract with a foreign industry.

But there are offices at each of these agencies, the Office of Small and Disadvantaged Business Utilization, the OSDBUs, who were supposed to enforce these laws and report to the agency Secretaries, the administrators, and directors. They are not doing a good job, and I mentioned to Chair Snowe last week that perhaps these OSDBUs should be required to send a quarterly activity report to the Chairs of the House and the Senate Small Business committees on what they were doing the previous 3 months, what activities they had that would increase and enforce the laws that are on the books.

These OSDBUs, there are 44 of them, and I would suggest that maybe 6 are doing their job. They have a big annual bash in the Virgin Islands every year to service the 12 small businesses in the Virgin Islands. They refuse to participate with the associations such as mine and others; refuse, won't return phone calls. "no, we are not coming. Don't send your people to us." and I am pretty upset about it. And as opposed to picking fights with agency Secre-

taries, I think it should be some kind of accountability to the Small Business Committee.

Chairman MANZULLO. But, Harry, we like to pick fights. That is our job. Also we have a member of our committee that represents the Virgin Islands and you may hear from her about the 12 businesses.

Mr. ALFORD. Oh, she started it.

Chairman MANZULLO. Karen.

Ms. KERRIGAN. Very briefly, to follow up on the procurement issue, I think the administration is going to need all the help it can in terms of holding these procurement officials accountable to the OMB initiative in terms of bundling. So any opportunity that you have, Chairman Manzullo, to bring these guys before your Committee, and gals, to see how they are implementing that initiative would be really important. I think that is very important for small businesses. I think it is important in the respect that none of these small businesses are acting on those contracts, but also the government is getting the best and most innovative services and increases available from the American businesses. So we hope that the Committee is helpful to the administration in that regards and in just following through and seeing what the status is on the OMB issue.

Chairman MANZULLO. I want to thank you all for coming. What we do with the roundtable is we are all trolling for causes. This committee last year took on the Defense Logistics Agency in Philadelphia. And there are 615,000 Chinese-made American berets that are rotting in a warehouse because we thought that the military should follow the Berry amendment. As opposed to having those berets made in the United States the military went to Sri Lanka, India, South Africa, Romania, China, Canada, a small portion of the United States, and I think we busted four or five of the seven contracts.

The Air Force put out a request for proposal to manufacture 115,000 hats, baseball caps, promotional caps, and they sent out six notices. It was very simple.

And the seventh notice repealed the request for a proposal. One of the people with whom we have worked on that issue advised us that the Department of the Air Force had entered into an agreement with the Government Printing Office, which is not governed by the Barry amendment yet. The Government Printing Office entered into a contract with the American company to have those hats manufactured. Guess where? In China. So we canceled that contract. An American manufacturer got that contract.

So, no, I want to pick fights with agencies. What I have found is this: The only way the agencies will be responsible is to be dragged at times, such as we did with Mr. Scully from HCFA, before this committee with a subpoena. When I found out that as a Committee Chairman I had powers of subpoena, that is like a kid with a new toy. I exercised this judiciously, but we ended up subpoenaing three generals on that issue with the black berets. And if government agencies do not answer my requests, usually within 10 days, I can snap a hearing together in 2 weeks, get those subpoenas issued, and give them the alternative of having a Federal marshal show up at their place of business, or at their home, or have someone from their office accept it by substituted service.

It is very, very difficult to work with the agencies. Hector Barreto does a good job. OMB is all over him like a ball cap, and has made his life extremely difficult; very, very difficult. We had a hearing where Hector was working with us trying to expand the definition on allowing the travel agents to get economic injury emergency loans as a result of 9/11. And SBA would send a note over to OMB and they would say well, you know, we are looking at it 5 months later.

So I brought Mr. Barreto and Dr. Graham before the committee and I said, you are not leaving this room. I am going to lock the doors until you come up with an agreement whereby you are going to allow these travel agents the ability to get these loans. And we formed a Committee. I said, you are not leaving this room. I am going to lock the doors until you come up with an agreement whereby you are going to allow these travel agents the ability to get these loans. But I think it took about 5 days after that.

The only way that we can hold most of the agencies responsible is through the hearing process. There is no hearing that is unimportant—that you may think is unimportant enough to bring to my attention. And that is why we get those berets. We stopped the construction of the National Park Service putting the hotel business in Denali National Park in Alaska. That would put eight campgrounds out of business. We got involved. Lloyd got involved as the manufacturer with banning snowmobiling at Yellowstone National Park. It would have destroyed an \$8 billion industry; that is, the snowmobiling industry. And snowmobiles are manufactured.

And we got what I think was a very favorable result because we held field hearings in West Yellowstone and also near Washington. And we held six hearings, six hearings on HCFA. Six hearings, because medical providers are small business people. And so we invite you to—and I live on causes. And if I didn't have a cause, I wouldn't be the Chair of this Committee.

Pat Toomey came in a little bit late, and we are just finishing up, Pat. He is the Chairman of our Subcommittee. Glad to see you here.

Mr. TOOMEY. I apologize for my lateness but I had a hearing with the Budget Committee.

Chairman MANZULLO. Well, that is all right. That is where you belong. Pat, did you want to share a couple of things? You are the Chairman of our Subcommittee.

Mr. TOOMEY. Well, I really, I just would say that I am looking forward to serving with you with in this 108th Congress. I am looking forward to doing everything we can to pass an ambitious tax relief package because I am convinced that our small businesses are still overtaxed in this country. In fact, I think that we in the House ought to view the President's proposal as an excellent constructive proposal that should be the floor, not a ceiling, for tax relief. And I have a few personal favorites that I hope we can move, including reduction of capital gains.

But I am particularly interested in having a whole series of hearings that ought to be driven by the small business community, which I think is something you may have alluded to, Mr. Chairman. You know, clearly one of the greater challenges facing small business is access to capital. I look forward to hearing about how

we can play a constructive role and help in small businesses gain that access as well as working on tax relief.

Thank you.

Chairman MANZULLO. Including allowing taxpayers—we had a hearing scheduled for September 11 of 2001—allowing business taxpayers to set their own depreciation schedules. I just put a \$27,000 roof on a 150-year-old building, 39½ years, yet I had to re-mortgage my farm in order to do that.

But that is all part of it, and all the roof people like this because you want to have incentives to get people to do something. That is the biggest expense that a small business has as a building. An HVAC system you can replace, put in a compressor here, condenser there, and stuff like that. But a roof is usually all at one time and it has a 39½ year life. It has got a 10-year warranty.

Well, thank you all for coming. We appreciate it very much. Thank you.

[Whereupon, at 12:15 p.m., the Committee was adjourned.]

